

UNIVERSITY OF MARYLAND
Department of Economics

Economics 754 – Fall 2003

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Political Economy in Macroeconomics

The main text for the course is Drazen, *Political Economy in Macroeconomics*, Princeton University Press, 2000 (PEM) and journal articles.

The prerequisite for the course is the first-year micro and macro sequences. The requirements for the course are two: a class presentation; and a take-home exam at the end of the course. The class presentation will be of an applied article in the second half of the semester.

There will be no class on Monday, September 22 and Monday, October 6. We will need to find make-up dates.

I. Introduction

PEM, chapter 1.

II. Time Consistency

PEM, chapter 4, pp. 101-121

Fischer, S. (1980), "Dynamic Inconsistency, Cooperation, and the Benevolent Dissembling Government," *Journal of Economic Dynamics and Control* 2.

Barro, R. J. and D. B. Gordon (1983) "A Positive Theory of Monetary Policy in a Natural Rate Model," *Journal of Political Economy* 91.

PEM, chapter 5, pp. 140-157

Rogoff, K. (1985), "The Optimal Degree of Commitment to an Intermediate Monetary Target," *Quarterly Journal of Economics* 100.

Svensson, L.E.O. (1997), "Optimal Inflation Targets, 'Conservative' Central Banks, and Linear Inflation Contracts," *American Economic Review* 87.

III. Reputation and Credibility

PEM, chapter 6, especially 6.4, 6.6 - 6.9

Backus, D. and J. Driffill (1985), "Inflation and Reputation," *American Economic Review* 75.

Vickers, J. (1986), "Signaling in a Model of Monetary Policy with Incomplete Information," *Oxford Economic Papers* 38.

Rogoff, K., (1987), "Reputational Constraints on Monetary Policy," *Carnegie-Rochester Conference Series on Public Policy* 26.

Drazen, A. and P. Masson (1994), "Credibility of Policies versus Credibility of Policymakers," *Quarterly Journal of Economics* 109.

Stein, J. (1989), "Cheap Talk and the Fed: A Theory of Imprecise Policy Announcements," *American Economic Review* 79.

IV. Elections

PEM, chapter 7.

PEM, chapter 3, p.70-85

Plott, C. ((1967), "A Notion of Equilibrium and its Possibility Under Majority Rule," *American Economic Review* 57.

Persson, T. and G. Tabellini (2000), *Political Economics*, Cambridge, MA: MIT Press, p. 32-34.

Ferejohn, J. (1986), "Incumbent Performance and Electoral Control," *Public Choice* 50.

Besley, T. and S. Coate (1997), "An Economic Model of Representative Democracy," *Quarterly Journal of Economics* 112.

V. Political Business Cycles

PEM, chapter 7.

Tufte, Edward R. (1978), *Political Control of the Economy*, Princeton, NJ: Princeton University Press.

Nordhaus, W. (1975), "The Political Business Cycle," *Review of Economic Studies* 42.

Alesina, A. (1988), "Macroeconomics and Politics," in O. Blanchard and S. Fischer, eds., *NBER Macroeconomics Annual 1988*, Cambridge MA: MIT Press.

Rogoff, K. (1990), "Equilibrium Political Budget Cycles," *American Economic Review* 80, 21-36.

Drazen (2001), "The Political Business Cycle After 25 Years," *NBER Macroeconomics Annual 2000*.

Brender, A. and A. Drazen (2003), "Where Does the Political Budget Cycle Really Come From?" working paper.

Alesina, A. and H. Rosenthal (1996), "A Theory of Divided Government," *Econometrica* 64.

Tabellini, G., and A. Alesina (1990), "Voting on the Budget Deficit" *American Economic Review* 80.

VI. Redistribution

PEM, chapter 8.

Meltzer, A. and S. Richard (1981), "A Rational Theory of the Size of Government," *Journal of Political Economy* 89.

Dixit, A. and J. Londregan (1996), "The Determinants of Success of Special Interests in Redistributive Politics," *Journal of Politics* 58.

_____ (1998), "Ideology, Tactics, and Efficiency in Redistributive Politics," *Quarterly Journal of Economics* 113.

Weingast, B., K. Shepsle, and C. Johnsen (1981), "The Political Economy of Benefits and Costs: A Neoclassical Approach to Distributive Politics," *Journal of Political Economy* 89.

Coate S. and S. Morris (1995), "On the Form of Transfers to Special Interests," *Journal of Political Economy* 103.

Drazen, A. and N. Limao (2003), "Government Gains from from Self-Restraint: A Bargaining Theory of Inefficient Redistribution Policies," working paper

Breyer, F. (1994), "The Political Economy of Intergenerational Redistribution," *European Journal of Political Economy* 10.

Tabellini, G. (1991), "The Politics of Intergenerational Redistribution," *Journal of Political Economy* 99.

Epple, D. and T. Romer (1991), "Mobility and Redistribution," *Journal of Political Economy* 99.

VII. Special Interest Politics

Drazen, Lecture Notes on Interest Groups

Persson, T. and G. Tabellini (2000), *Political Economics*, Cambridge, MA: MIT Press, chapter 7.

Baron, D. and J. Ferejohn (1989), "Bargaining in Legislatures," *American Political Science Review* 83.

Drazen, A. (2002) "Conditionality and Ownership in IMF Lending: A Political Economy Approach," *IMF Staff Papers (Special Issue)*, Vol. 49 (2002)..

Grossman, G. and E. Helpman (2001), *Special Interest Politics*, Cambridge, MA: MIT Press.

VIII. Public Goods

PEM, chapter 9

IX. Policy Inaction and Delay

PEM, chapter 10

Rodrik, D. (1996), "Understanding Economic Policy Reform," *Journal of Economic Literature* 34.

Fernandez, R. and D. Rodrik (1991), "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty," *American Economic Review* 81.

Cukierman, A and M. Tommasi (1998), "Credibility of Policymakers and of Economic Reforms," in F. Sturzenegger and M. Tommasi, eds., *The Political Economy of Reform*, Cambridge, MA.: MIT Press.

Alesina, A., and A. Drazen (1991), "Why are Stabilizations Delayed?," *American Economic Review* 81.

Velasco, A. (1999), "A Model of Endogenous Fiscal Deficits and Delayed Fiscal Reform," in J. Poterba and J. von Hagen, *Fiscal Institutions and Fiscal Performance*, Chicago: NBER and University of Chicago Press.

Drazen, A. and W. Easterly (2001), "Do Crises Induce Reform?: Simple Empirical Tests of Conventional Wisdom," *Economics and Politics* 13, 129-57.

Class Presentations on Applied Topics

Factor Accumulation and Growth

1. Persson, T. and G. Tabellini (1994), "Is Inequality Harmful for Growth?," *American Economic Review* 84, 600-621.

[Alesina, A. and D. Rodrik (1994), "Distributive Politics and Economic Growth," *Quarterly Journal of Economics* 109, 465-490.]

2. Benabou, R. (1996), "Inequality and Growth" in Ben Bernanke and Julio Rotemberg, eds., *NBER Macroeconomics Annual*, Cambridge MA: MIT Press. (on capital market imperfections)

3. Saint-Paul, G. and T. Verdier (1993), "Education, Democracy and Growth" *Journal of Development Economics* 42, 399-407.

4. Perotti, R. (1996), "Income Distribution, Democracy, and Growth: What the Data Say," *Journal of Economic Growth* 1, 149-87.

5. Rodrik, Dani (1999) "Where Did All the Growth Go? External Shocks, Social Conflict and Growth Collapses," *Journal of Economic Growth*,

6. Acemoglu, D., S. Johnson, and J. Robinson (2002), "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," working paper, forthcoming *QJE*

The Open Economy

7. Giavazzi, F. and M. Pagano (1988), "The Advantage of Tying One's Hands: EMS Discipline and Central Bank Credibility," *European Economic Review* 32, 1055-82.
 8. Obstfeld, M. (1996), "Models of Currency Crises with Self-fulfilling Features," *European Economic Review* 40, 1037-48.
 9. Tabellini, G. (1990), "Domestic Politics and the International Coordination of Fiscal Policies," *Journal of International Economics* 28, 245-65.
 10. Grilli, V. and G.-M. Milesi-Ferretti (1995), "Economic Effects and Structural Determinants of Capital Controls," *IMF Staff Papers* 42, 517-551.
- [Alesina, A., V.Grilli, and G.-M. Milesi-Ferretti (1994), "The Political Economy of Capital Controls," in Leonardo Leiderman and Assaf Razin, eds., *Capital Mobility: The Impact on Consumption, Investment, and Growth*, Cambridge: Cambridge University Press.]
11. Bulow J. and K. Rogoff (1989), "Sovereign Debt: Is To Forgive To Forget?," *American Economic Review* 79, 43-50.
 12. Boone, P. (1996), "Politics and the Effectiveness of Foreign Aid," *European Economic Review* 40, 289-329.